CHAPTER –II

REVIEW OF LITERATURE AND
AN OVERVIEW OF CO-OPERATIVE MOVEMENT

The understanding of any subject depends on a good knowledge of related literature. A good knowledge of literature helps not only to identify the scope of the subject but also facilitates the study design in an enhanced manner. Hence a review of the available studies in the field or related field of Co-operative Banks, are provided under three different headings. To begin with, the first section of this chapter deals with the review of literature pertaining to the Co-operative Banks.

Literature Review on Co-operative Banks

The studies in the field of Co-operative Banks are reviewed below.

A study namely “Management of District Central Co-operative Banks” by M. Kutumba Rao\textsuperscript{1} was published in 1985. This study examined the performance and management of selected Central Co-operative Banks in Andhra Pradesh in relation to the objectives and tasks set for them. It also analyzed the organizational structures, bank’s capital structure, lending policies, procedures, personnel practices, etc. The study concluded that, “bureaucratic leadership was no substitute for ineffective elected leadership”. The leadership needs to play a positive role in accordance with the local needs of agriculture, branch expansion, deposit mobilization and recovery of loans. The role of the RBI in guiding and controlling Central Co-operative Banks made a healthy effect on their operational efficiency.

A study namely “Recovery Performance of DCCB, Dharwad” was undertaken by Vaikunthe L.D.\textsuperscript{2} in 1988. In order to examine the bank’s recovery performance, the researcher has conducted a survey with 180 borrowing households, who were selected from different farmer groups such big; medium and small farmer and they were questioned about the reason for default in repayment of loan. The study revealed the fact that crop failure was the main reason behind the mounting overdues.

A study on “Central Co-operative Banking in a Developing Economy” was undertaken by Govind Parrek\textsuperscript{3} in 1990. The study intended to scrutinize the financial viability of District Central Co-operative Banks in Rajasthan. The study revealed the poor financial position of all Central Co-operative banks in the state. It also disclosed the critical financial condition and some sort of undeclared insolvency position faced by eight DCCBs in the state.

A study on “Reserve Management and Profitability of Co-operative Banks – A Case Study of Trichur District Central Co-operative Bank Limited” was conducted by Saheena P.\textsuperscript{4} in 1990. The purpose of the study was to know the impact of surplus reserves maintained in the bank by way of C.R.R and S.L.R over and above the statutory obligation on its profitability. The researcher included the opportunity cost of additional reserve which were computed on the basis of differential interest. It increased the spread ratio. The study found that the inclusion of opportunity cost increased the average profitability of the bank. Further it recommended all the banks to avoid maintenance of excess reserves.


A study entitled an “Appraisal of Personnel Management Policies and Practices in Central Co-operative Banks in Tamil Nadu”, was conducted by Sivaprakasam P.\textsuperscript{5} in 1991. The study was primarily a descriptive one. This study disclosed the fact that there is an urgent need to form full-fledged personnel department, which may attend to the personnel management functions, implement the personnel policies and exercise control over personnel matters, in the context of growing business transaction of the DCCBs in Tamil Nadu and growing significance of personnel function in these banks. It also recommended that the personnel department needs to be led by a personnel manager who would be a staff specialist and extend his assistance to the chief executive as well as heads of various other departments in the bank. It also suggested the necessity of implementing formal and well designed uniform personnel policies to perform personnel function efficiently in DCCBs. The necessary data were collected from all Central Co-operative banks in Tamil Nadu and analyzed for the whole state. Statistical tools such as averages and percentages were applied for analysis. Apart from these tools, observation technique was also applied to study the employees working conditions and environment of the bank.

An attempt was made to study the “Management of Co-operative Banks in India” by Sahoo. S.K and Sahoo. S.C.\textsuperscript{6} in 1991. The study intended to scrutinize the working of the Central Co-operative Bank in the state of Orissa. The researchers appraised the growth and development of the banks and their performance in the field of deposit mobilization, lending to both agricultural and non agricultural sectors, and their recovery performance. The study discovered and reported the following points:


the growth in the deposit mobilization was not consistent. Affiliated societies contributed more and satisfactory deposits than individuals. The profitability during the study was very low. The researcher suggested increasing the profit by improving the efficiency of working and management which would lead to a better utilization of the working capital.

A study namely “Work Technology of Co-operatives” was conducted by Ganeshwar Rao D.\(^7\) in 1992. In this study, the researcher reiterated that the work technology needed to be enhanced in Co-operative Banks as a measure of efficiency of operations, economy in expenditure and improvement in customer service.

An attempt was made to study the “Utilization of Crop Loan by Farmers in Dobh Village of Haryana State” by Hooda et.al\(^8\) in 1995. This study revealed that the agricultural production and repaying capacity of the farmers were made to improve through the extension of crop loan. It also revealed that more than one fourth of the respondents repaid the loan in time and avoided penal interest. Among these persons, 18.35 per cent of borrowers paid back the loan to avoid default and 10.09 per cent of borrowers rapid back the loan to ensure loan facility in the future. This study was based on both primary and secondary data.

Reddy S. and Reddi R.C.\(^9\) made “A Case Study on Performance Appraisal of Co-operative Banks in Bharia, Verma and Garg” in 1994. The researchers made an attempt to evaluate the performance of a District Central Co-operative Bank in Andhra Pradesh. The researcher used both primary and secondary data for this study. The


secondary data such as membership position, share capital, branch expansion, deposits, borrowings, advances and recovery position of the bank were used to analyze the performance of the bank. The external borrowings increased considerably due to the poor deposit mobilization. In many years the target fixed for the deposit mobilization had not been achieved. The lending performance was not satisfactory. The growth rate of overdue was far higher than the loan outstanding.

A Study on “Overdues in Co-operatives: A Case Study in Andhra Pradesh” by Reddy B.R. and Laxminarayana\textsuperscript{10} was published in 1996. It depicted that viability and self reliance could be brought to Co-operatives only by adopting a more professional approach in the sanction and recovery of various loans. The author concluded by stating that Co-operatives should function as efficient business units, motivated by a sense of social purpose based on the fundamental principles of cooperation.

Dash N.K.\textsuperscript{11} made a study on “A Practical Guide for Urban Co-operative Banks on Income Recognition, Asset Classification Norms and Reduction of NPAs” in 1997. The author stressed the importance of adopting a proper system for recognition of income, classification of assets and provisioning for bad debts on a prudential basis, if the bank requires its balance sheet to reflect the actual financial health. The study was designed to cover the complexities of recovery management and the role of recovery as a key performance area to prevent the blockage of huge funds in non – performing assets. It recommended that the branches should be provided with adequate field staff for continuous follow-up and recovery function. In addition to this, it suggested to carry

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out designing of lending schemes, appraisal techniques and procedure for disbursement of loans in order to improve the quality of lending which has a significant bearing on the recovery of the loan.

A research entitled, “A Study of Overdues, Recovery Performance and Erosion of Funds in Central Co-operative Banks” was undertaken by Puyalvannan in 1997. The author analysed the overdues, recovery performance and erosion of funds in Central Co-operative Banks and stressed on the fact that, while lending is a fine art requiring sharp commercial acumen, Efficient and effective recovery of advances is perhaps a still finer art, requiring a high degree of specialization. The study concluded that in some of the CCBs, the percentage of erosion of owned funds was high due to over dues. Further, too much of Government’s interference in the working of the Co-operatives was considered to be the other cause for heavy overdue.

Debabrata Das made a study on “Co-operative Banking in Arunachal Pradesh” in 2000. This study aimed to analyze the working of the Arunachal Pradesh State Co-operative Apex Bank Ltd. It analyzed the pattern of advances of the bank, the trends of branch expansion and deposit mobilization of the bank. The study covered a period of nineteen years from 1978-79 to 1996-97. It is observed that the bank’s deposit mobilization performance was good. As proper utilization of loan could improve the recovery position of the bank, it recommended that proper and frequent supervision of utilization of loan funds need to be undertaken by the employees at different stages.


A study namely “Performance Evaluation of Sri Kannikaparameshwar Co-operative Bank Ltd., Hassan” was undertaken by Mahadevappa B. and Girisha B.N. in 2001. This study was made on the basis of performance evaluation of a major urban Co-operative bank in Hassan. The study revealed that the bank had the benefit of sound profitability and liquidity position while it suffered from a weak long term solvency position. The increased total income, interest income margin, deposits and decreased operating expenses, were the main contributing factors for the sound profitability position of the SKPC Bank Ltd., the study concluded that (a) the SKPC Bank Ltd., maintained sufficient current assets to meet its current liabilities. (b) The bank lost the opportunity to earn more interest income either by investing excess current assets in productive investment or by sanctioning loans due to the maintenance of high current ratio.

A study on “Productivity Challenge before Co-operative Banks” by G.S. Kamat was published in 2001. The study found various potential areas to improve the productivity of Co-operative Banks through cost reduction. It revealed that these areas could yield immense benefits if adequate support is extended to the bank. It suggested the Co-operative banks to adopt an appropriate cost reduction approach to improve productivity in their management.

A study on “Funds Management in Co-operative Banks- A Need for New Approach” was undertaken by Venugopal Y. in 2001. He reported that in the context of open economy and application of prudential norms and regulation of interest rates, a

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new orientation of achieving higher productivity and profitability is required for the funds management in Co-operative Banks. The new approach should be increasing the spread of interest, which requires reduction in interest cost and increase of interest income in order to withstand the competition from other players. In this circumstance, the function of allocation of funds in a profitable manner needs to be focused on by banks. The mobilization of resources (owned funds, deposits form public, members, loans from RBI, refinance from NABARD, etc.,) at the lowest cost and deployment of funds ensuring higher yield (which also depends in good recovery performance of advances and reduction of NPA to the level of less than 10 percent of gross advances) are the important factors that ensure the profitability. The funds management should also concentrate on the reduction of emerging risks in bank business and also on maintaining desired levels of matching maturities of assets and liabilities. Cost reduction in mobilizing resources and increase in yield from funds deployment are required to be ensured to register profits.

**Viswanath A.R.** made an attempt to “Analyze the Performance of Agricultural Credit Co-operatives and their Over dues Problems in India” in 2001. The study applied development index in the first attempt to assess the overall performance of agricultural credit Co-operatives. As a next step, the study applied correlation coefficient technique to analyse the nature and extent of over dues problem. Finally it identified the main factors causing mounting over dues and suggested some points such as: (a) the seasonality in disbursement and recovery of loans should be strictly adhered to by credit Co-operatives. (b) In order to minimize the problem of over dues, urgent steps must be taken to create recovery cells in each district headed by a district judge.

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Ramesha K.\textsuperscript{18} made a study entitled “Credit Risk Management in Agricultural Co-operative Banks” in 2001. Given the rates of NPAs and chronic over dues, credit risk management assumes greater significance in Co-operative Banks. The inherent risk in agricultural lending makes credit risk management all the more important and burning requirement in Agricultural Credit Co-operatives. Needless to say, credit discipline should form the centre piece of the strategies for the survival and growth of PACBs.

A study namely “Madurai District Central Co-operative Bank and Agricultural Sector Financing”, was undertaken by Rengaswami V. and Ramanath R.L.\textsuperscript{19} in 2002. The district credit plan prepared by the lead bank was an important phase of the service area approach. The district credit plan aimed at regulating the flow of priority sector credit in each district according to the plan priorities. The analysis revealed that the performance of MDCC bank performed well like other financial agencies of agricultural lending sector in the Madurai district. The researcher concluded that the MDCC bank showed greater interest in lending the agricultural sector in the district.

A study on “Revitalizing Rural Credit System” was done by Satyasai. K.J.S and Patil A.S.\textsuperscript{20} in 2002. In their study, they highlighted three strategies such as “Recognising the nature of significance of demand for rural credit, Strengthening of organization and competence of the institutions and Sensitizing the regulatory and support system” as suggestions for strengthening the rural credit system.


Chidambaram K and Ganesan S.\textsuperscript{21} jointly reported a study on “Over dues in Primary Agricultural Co-operative Banks in Madurai District” in 2002. This research aimed to analyze the reasons for over dues from the point of view of authorities. Structured questionnaire was used to collect data from the authorities of 50 PACs. An analysis was made to study the demand, recovery and over dues position, before analyzing the causes of overdue. This study covered Madurai district and six PACs out of 256 were selected as sample unit on simple random sampling technique method. For this study purpose, the borrowers were classified into two categories namely the genuine defaulters’ and willful defaulters based on the causes of over dues. The borrowers who failed to repay their dues due to the impact of uncontrollable factors like floods, earthquakes; droughts, crop failure, and heavy expenditure on social ceremonies, inadequate income generation and the like are known as genuine defaulters while the borrowers who are financially sound, but they don’t have the attitude to repay the loan amount are willful defaulters.

A study on “NPA Management by Rural Banks; A Critical Appraisal” was undertaken by Monica Soni\textsuperscript{22} in 2002. The study aimed at analyzing the NPA position of two major players in rural banking viz., Co-operative Banks and Regional Rural Banks. NPAs have serious impact on the profitability of banks. There is a strain on the profitability of banks as they could not recognize or book income on NPA accounts. Moreover the profits realized needs to be diverted to make provision for impaired assets. The liquidity risk of bank increased due to an increase in the level of NPAs to total credit. However, the bank could not prevent the emergence of NPAs due to risk involved in lending on account of poor banking judgment, changes in economy etc.,


This demanded a detailed analysis of different aspects of NPAs. The efficiency of rural banks could be made better, if their performance with respect to NPA management improved.

Khatik S.K.\textsuperscript{23} made a study entitled “Financial Appraisal of IDBI Bank Ltd” in 2003. This study was concerned with banking organization that offered a personalized service. The author applied various indicators to evaluate the bank’s financial performance, to appraise the true financial position of the bank, to find out the strengths and weaknesses of the bank and to suggest improvements for its future working. Based on the financial indicators like capital adequacy ratio, non-performing assets, priority sector advances, statutory liquidity ratio, cash reserve ratio and credit deposit ratio, the IDBI bank was judged as a progressive, technologically driven, professionally managed entity. The bank was fully equipped to meet the competition from the existing as well as new banks effectively. Its financial position during the study period was found to be satisfactory.

A study namely “Prime Discriminators of Profitability in the Indian Commercial Banks” was undertaken by Sathya Swroop Debasis\textsuperscript{24} in 2003. In this study, net return generated out of the total resources deployed was applied to measure bank’s profitability. This study made an attempt to identify the most critical profitability ratios by applying a multifarious analysis technique.

“Funds Management in Central Co-operative Banks” – A case study of the Jalandhar Central Co-operative Bank Ltd was reported by Amardeep Walia\textsuperscript{25} in 2003.

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The report identified the following facts- The Central Co-operative banks were under pressure to judiciously manage their funds due to stiff competition in the market. The main source of funds of the bank was deposits which contributed 91 percent of the funds. The loan portfolio of the bank was found in poor condition and only a 34 percent of total funds were deployed for loans and advances while a major portion, 60 percent was deployed in investments. CD ratio was maintained below 39 percent. It is found that the solvency position and recovery position of the bank were sound with CAR at 12 percent and recovery at 97 per cent level. However the bank suffered from liquidity risk.

A study namely “Performance Appraisal with Special Reference to Profitability and Viability Dimension–Uthamapalayam Urban Co-operative Bank, Theni District” was made by Samwel Kakuko Lopoyetum\textsuperscript{26} in 2003. The research aimed at studying the growth of business operations, profitability and viability of Uthamapalayam Urban Co-operative Bank for the period 1992-2001. It pointed out the fact that membership, share capital, reserves, loan and advances grew steadily over the period. The trend of loan recovery registered wide fluctuations. The researcher applied number of ratios to assess the performance of the bank and inferred that better quality of services and efficient management were the main reasons behind the success of the bank.

The study entitled “An appraisal of Indian Banking from NPA Perspective” by Ramakrishna Reddy G. and Sree Bhargavi. T.\textsuperscript{27} was reported in 2004. The researcher highlighted the impact of increase in NPA on bank’s profitability, and on bank’s existence. The researcher suggested some guidelines for the effective


management of NPAs, viz., (a) early for starting stage of sickness have to be identified and proactive remedial action to be initiated warning signals (b) Attention had to be paid to high value NPAs. (c) Banks had to take up the rehabilitation of deserving units only. (d) Securities were to be assessed at regular intervals for the proper provisioning of doubtful and loss assets.

An attempt was made to study the “Funds Management in the Central Co-operative Banks of Punjab— An Analysis of Financial Margin” by Fulbag Singh and Balwinder Singh in the year 2006. The study intended to estimate the impact of the variables that were identified for the study purpose, such as the Ratio of Own Funds to Working Funds, the Ratio of Low Cost Deposits to Total Deposits, the Ratio of Overdues to Total Loans, the Ratio of Recovery to Demand, the Ratio of Agriculture Loan to Total Loan and the Credit to Deposit Ratio on the financial margin of the Central Co-operative Banks in Punjab. This impact was examined with the help of statistical techniques such as Correlation and Multiple Stepwise Regression Approach. The study identified the positive impact of Own Funds to Working Funds and the Ratio of Recovery to Demand on the financial margin while the Ratio of Recovery to Demand had negatively influenced the financial margin. The study concluded that the financial margin could be improved through the timely recovery of previous loans and high use of funds.

Ganesan N made a study on “Data Envelopment Analysis of State and District Co-operative Banks in India: Exploratory results” in 2009. A sample size of 30 State Co-operative Banks (SCBs) and 20 District Central Co-operative Banks (DCCBs)


in India were selected for the study purpose. It covered a period of 2002-06. The researcher analysed the performance of SCBs and DCCBs with the help of direct empirical method. It calculated the self-efficiency of each SCB and DCCB in each state by applying Data Envelopment Analysis (DEA). The efficiency score was derived after completing the regional wise grouping of SCBs and DCCBs. The study highlighted the performance of SCBs and DCCBs in terms of technical efficient score.

A study entitled “Trend and Progress of District Central Co-operative Banks in India”, was undertaken jointly by Mayilsamy and Revathi Bala in 2009. The study revealed the general growth in the performance of DCCBs owing to the new measures and policy initiatives introduced by the respective State Government and by NABARD. The policies and measures include the substantial State Partnership in the share capital of DCCBs, linking borrowing with share capital, measures for the mobilization of adequate deposits, linking of deposits with borrowing, preferential lending to weaker sections, etc.,

**Literature Review on CAMELS Approach**

This section presents the review of earlier studies related to CAMELS analysis of banks.

**Barker D. and Holds worth .D** jointly presented their research paper, on the title “The Cases of Bank Failures in the 1980’s in 1993. The study revealed the fact that CAMEL rating was useful for predicting bank failure even after the exercise of strict control over the published information on the bank’s position. An attempt was made to examine the “CAMELS for evaluating the performance of banks” by **Godse V.T**

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in 1996. In this report the researcher had highlighted the application of CAMEL system Viz., C- Capital Adequacy, Assets Quality, Management, Earnings, and Liquidity for evaluating the performance of banks.

A study namely “Performance Snapshot 2003-04” was undertaken by Prasuna in 2004. The researcher applied CAMEL model to evaluate the performance of 65 banks whose annual reports were available. The universe of the study includes 23 banks from public sector, 24 banks from private sector, and 18 foreign banks. Further the researcher expressed his views that the bank’s better service quality, innovative products and better bargains in spite of tough competition had proved to provide better satisfaction to the customers. He also stated that “the coming fiscal year would prove to be a transition phase for Indian Banks, as they will have to align their strategic focus to increasing interest rates”.

Veni.P. made a research on the topic “Capital Adequacy Requirements of Commercial Banks” in 2004. The capital adequacy requirements of banks and the measures taken by them to strengthen their capital ratios were analyzed in this study. The study pointed out the fact that Capital Adequacy were considered an important element by rating agencies while rating the bank’s Fixed deposit and bonds certificates. These agencies used CAMEL model in the task of rating banks.

The Research entitled “Predicting Bank CAMELS and S&P Ratings: The Case of the Czech Republic”, was undertaken by Alexis Derviz, Jiří Podpiera in 2004. The main aim of study was to find out the determinants of commercial bank ratings in


the Czech Republic. For the study purpose, the research selected three major banks such as Česká Spořitelna (CS), Komerční Banka (KB) and Československá Obchodní Banka (CSOB) and the study covered a period of 1998-2001. The researcher examined the changes in the external Standard and Poors (S&P), long-term rating and all components of CAMELS rating employed by the banking supervisory body of Czech national bank. The CAMEL model exhibited variability in the actual data to an extent of 84% and S&P rating model revealed 70% predictive accuracy.

A study on “CAEL Rating and its Correlation to Pricing Stocks – An Analysis of Indian banks” was reported by Sheeba Kapil and Kapil .K.N\(^{36}\) in 2005. The study aimed to identify the relationship between stock performance and CAMEL score. The researcher analyzed the viability of the bank on the basis of CAMEL model. The M for Management had not been considered in this paper because all Public Sector Banks, (PSBs) are government regulated. The study came out with the suggestion that the disclosure of CAMEL rating of banks to the public would facilitate the investors to assess the real value of bank’s stocks in a more proper and correct manner.

Keshar J. Baral\(^{37}\) published a report namely “Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of the Joint Venture Banks in Nepal” in 2005. The researcher examined the financial health of joint venture banks by adopting CAMEL framework. For the study purpose, the research selected Nabil Bank Limited (Nabil), Nepal SBI Bank Ltd (NSBI) and Standard Chartered Bank and Nepal Limited. The study revealed that financial health was not so strong to manage the strong shocks to their balance sheet and their health as fair.


A Study entitled “Evaluating Performance of Banks through CAMEL model- A Case Study of SBI and ICICI” was published by Bolda .B.S. and Richa Verma in 2006. The researchers on the basis of some selected parameters examined the performance of two important commercial banks SBI, and ICICI and made comparative rating analysis. The study disclosed the excellent performance of both SBI and ICICI since the beginning of 21st century. It also found that SBI’s performance with regard to some parameters was better than that of ICICI bank.

Yado rao made a study on “Monitoring Capital Adequacy in Public Sector Banks” in 2006. The study aimed to rank the nationalized banks with the help of the first component i.e, Capital adequacy of CAMEL system. In order to analyze the Capital Adequacy component the researcher applied CAR, Debt to Equity ratio, Advances to Total Assets ratio and Government Securities to Total Investment Ratio for the period of 2003-04 and 2004-05. Further, to facilitate the Banking process, the researcher applied the averages of percentages also.

A study entitled “Analyzing Financial Performance of Commercial Banks in India: Application of CAMEL Model” was published jointly by Mohi-ud-Din Sangmi and Tabassum Nazir in 2010. The research was undertaken with the aim of evaluating the financial performance of two major banks such as Punjab National Bank (PNB) and the biggest private sector bank i.e Jammu and Kashmir Bank, (JKB) operating in northern India and to suggest measures to improve the financial performance of these banks. The researcher applied CAR, Leverage Ratio, Net NPA to


Net Advance, Earning per Share, Credit Deposit Ratio, Income per Employee, Expenditure per Employee, Spread Ratio, Net Interest Margin Ratio, Liquid Assets to Total Assets Ratio, Government Securities to Total Assets Ratio to analyze the components of CAMEL system. The study found the fact that both the bank had performed very well. It highlighted the position of the banks under study as sound and satisfactory so far as their capital adequacy, asset quality, management capability and liquidity were concerned.

**Literature Review on Customers’ Satisfaction**

This section reviewed the studies related to customer’s satisfaction in banks.

A study entitled, “Barking up the Wrong Tree – Factors Influencing Customers Satisfaction in Retail Banking in the UK” was conducted by Anita Chakrabarty in 2000. The researcher carried out the study to know the level of customers satisfaction and the influence of determinants on customers overall satisfaction in retail banking in the UK. In order to ensure generalisability and validity of finding 12358 respondents were selected to constitute the sample size. The study analyzed the impact of four major satisfaction factors such as Branch satisfaction, Economic satisfaction, ATM satisfaction, Remote satisfaction on customers overall satisfaction. Finally it found that the overall satisfaction level of customers was high and branch satisfaction played a major role in influencing the overall satisfaction of customers while the influence of ATM related satisfaction was very low.

A study namely the “Factors Affecting Customers’ Choice of Retail Banking” was carried out jointly by Venkata Seshaih S. and Vunyale Narender in 2007.

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The main aim of the study was to evaluate the factors that influence the customers’ option in selecting the banks. 1000 customers were selected for the study purpose. The study revealed the fact that the customers’ choice was greatly influenced by the factors such as Safety of Deposits, Size and Strength, Accuracy, General Service Quality, Speed of Delivery, Proximity. It also stated that the factors like Security of Environment, Cordiality of Staff, Price and Service Charges, Product Packaging have moderate impact on the customers’ choice while General Public Impression, Peer Group Impression, Face Lift (Structural), Friendship with Staff and Advertisement and Publicity had low level of influence on the customer’s choice of bank selection.

A study on “Constituent Dimensions of Customer Satisfaction: A Study of Nationalised and Private Banks” was carried out by *Jitendra Kumar Mishra*43, in 2007. The researcher had carried out the study to identify the determinant factors and to develop customer satisfaction dimensions for nationalized and private banks. Hundred customers were selected from public and private sector with equal probability. The study revealed ten factors such as Vigilance, Competence, Advancement in Services, Flexibility in use of services, Reliability, Vision, Responsiveness, Reach, Cost effectiveness, Efficient process and five dimensions such as Service Orientation, Diligence, Adherence, Value for Money and Amiability.

A research entitled “Study of Services to Depositors and Small Borrowers in Rural and Semi-Urban Areas” was published by the *Reserve Bank of India*44 in 2007. The study aimed to identify the quality of service rendered by the commercial banks to their customers both depositors and small borrowers. The study also analyzed the

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customers’ expectation from their banks. It considered a national representative sample of 922 branches constituting a total sample of 9,178 depositors and 13,109 borrowers. The study concluded that customers’ satisfaction is relatively high in almost all customer segments. However, customers satisfaction was low with regard to the criterion such as service and access, information dissemination regarding qualification for getting loan’, ‘awareness campaigns about various loan schemes’ ‘account opening process’ and ‘average waiting time’, ‘Employees responsiveness’ etc and it suggested all banks to take necessary steps to improvise these critical areas.

A study namely “Customer Satisfaction in Indian Banking: A Case of Yamuna Nagar District in Haryana”, was published by Raj Kumar in 2008. The study aimed to identify the customers’ satisfaction through service quality offered by the banks and to identify the weak areas for improvement to enhance the service quality. The researcher had selected two banks such as -SBI from the public sector banking and ICICI from the private sector banking for the study purpose. The study identified that with regard to all dimensions of service quality, the public sector banks like SBI fall much below the customers perceptions. But private sector banks such as ICICI were exceeding the customers’ perception regarding tangibility and reliability dimensions. Further, to deliver the service in fast and quick manner it insisted the banks had to invest heavily on tangibles particularly computer based banking, internet and intranet services, tele-banking, 'anywhere and anytime banking', etc.

A study namely “Customer Expectations and Perceptions across the Indian Banking Industry and the Resultant Financial Implications” was published by Dutta

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et.al\textsuperscript{46}, in 2009. The intention of the study was to compare the expectations of customers and perceptions of service quality and bank performance between public, private and foreign banks and the overall service quality of banks in India. A sample size of 263 respondents was used for the study purpose. The statistical test such as Factor Analysis and Cronbach’s Alpha were applied to identify the key dimensions and to test the reliability of set of items forming the key dimensions respectively. The test confirmed the existence of gap between customers’ expectation and service quality of all banks. Further, it also stated that the gap varies across the banking sector with public sector banks showing the widest gap and foreign banks showing a narrow gap. It concluded that the foreign banks were perceived to offer better service followed by private and then public banks.

A study on “Service Marketing in Co-operative Banks: Need for Global Competitiveness” was published by \textit{Sakthivel and T. Aranganathan}\textsuperscript{47} in 2009. They stated in their study that the Co-operative banks like many other financial service is facing an unprecedented set of challenges like development of new technologies, changing market conditions, economic uncertainties, fierce competition and more demanding customers. In a competitive environment, Customers service in addition to intangible assets are the important factors for the success of service oriented industry and hence Co-operative Banks need to focus on relationship marketing for their success.


Ravichandran K. et al.\textsuperscript{48} made a study on the “Influence of Service Quality on Customer Satisfaction Application of SERVQUAL Model”, in 2010. The research was carried to examine the existing service quality level with regard to dimensions of tangibles, reliability, responsiveness, assurance, and empathy. Two top private banks in Tiruchirappalli district were selected and the sample size of 300 respondents was used for the study purpose. In this study SERVQUAL scale was adopted to gain an insight into consumers perceived service quality. Finally the study revealed that the respondents were satisfied with the service quality of the bank in varying degrees.

Magesh R.\textsuperscript{49} published a report on the topic “A Study on Quality of Service as a Tool for Enhancement of Customer Satisfaction in Banks” in 2010. Samples of 182 customers from bank one and 168 from bank two, totally 350 customers were selected for the study purpose. The study used five dimensions consisting of seventeen statements to measure customers banking experience. The study concluded that the bank’s performance delivery required to be enhanced to improve the customers’ satisfaction. It also suggested the banks to identify their strengths and weakness with regard to various service quality dimensions to allocate the resources effectively for enhancing the service quality.

Naveed Azeem Khattak and Kashif-Ur-Rehman\textsuperscript{50} jointly made a study on the “Customer satisfaction and awareness of Islamic banking system in Pakistan” in 2010. The main objective of the study was to obtain some knowledge on customers’


usage, awareness, level of satisfaction and their attitude towards the services of Islamic banking. The study disclosed the fact that the bank lacks many aspects and the requirement to fulfill the customer needs. Further it identified that most of the customers were unaware about some of the financial products. However, the customers were mostly satisfied with the Islamic banking products and services. It also suggested the bank to improve the customers’ awareness level by conducting seminars on products and services of the bank.

**Uppal R.K.** reported a study on “Customer complaints in banks: Nature, extent and strategies to mitigation” in 2010. The purpose of the study was to analyse the number of complaints in three type of banking sectors such as public sector banks, private sector banks and foreign sector banks and also to propose measures to reduce the complaints. The study revealed the fact that large number of complaints had been registered in public sector banks than private and foreign sector banks. It recommended for an organization of customer care centers by all the public sector banks, to solve the complaints and to mitigate the complaints.

It is considered essential to have a clear understanding of the background in which the District Central Co-operative Banks are functioning for the evaluation of T.D.C.C Bank Ltd. Hence in the succeeding section, the researcher makes an attempt to review the developments in Co-operative Banking in India in general and that of Tamil Nadu in particular.

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AN OVERVIEW OF CO-OPERATIVE MOVEMENT

Co-operative means working together. It is the basis of domestic and social life. Co-operative effort is ultimately the group instinct in man which enables him to live together, work together, and help each other in terms of stress and strain.

A Co-operative organization is that form of economic organization in which persons wilfully and voluntarily pool their resources on a basis of equality of advancement of their economic interests. The user-owners are known as members. They derive two kinds of benefit from the Co-operative, proportionately to the level of use of it. First, the members can receive more and better service from Co-operative, if they use it more. Second, based on their transactions they carry out with the Co-operative, profits are distributed to members. It functions on the basis of certain conditions or principles which the participants agree to observe it. Some definitions given by prominent Co-operative leaders all over the world have been quoted below:

According to International Co-operative Alliance, "a Co-operative is an autonomous association of persons united voluntarily to meet their common, economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise"\(^52\).

According to the Co-operative planning committee (1946), “Co-operation is the form of organization in which persons voluntarily associate together on a basis of equality for the promotion of their economic interests."\(^53\) Those who come together have a common economic aim which they cannot achieve by individual isolated action because of the weakness of the economic condition of a large majority of them. This element of individual weakness is overcome by the pooling of their resources by


making self help effective through mutual aid, and by strengthening the bonds of moral solidarity between them”.

Dr. R. Philips says the “Co-operative Association is an association of firms or households for business purposes an economic institution through which economic activity is conducted in the economic objectives.”

From the above definitions, it can be said that there is no common definition for the term “Co-operative”. The fact is that Co-operatives in their nature are neither capitalistic nor socialistic but are neutral between the two and its main aim is to further the economic interest of its members. It can serve various aims and cater to the needs of politically, socially, and religiously divergent people at one and the same time.

**Principles of Co-operative**

Co-operative principles, in fact, one fundamental characteristic features which, determines the character of Co-operation as a form of association. They are the guidelines and ground rules for Co-operative enterprise. A Co-operative principle is a governing law of conduct, “A settled rule of action”– which describes and defines the basic, essential characteristics of Co-operative system.

Co-operative principles are concrete realities and not mere abstraction. They are just a code of conduct for a Co-operative organization, the practice of which may change according to local conditions. Broadly speaking, there have been three types of Co-operative systems which are based more or less on the same principles, but which differ from each other in the mode of operation. These three systems are the Rockdale system, the Raiffeisen system and the Schulze-Delizsch system concerned with the consumers, farmers, and traders respectively. Among the three, principles laid down by Rockdale pioneers have been commonly adopted all over the world. They are

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democratic control, open membership, limited interest on capital, patronage dividend, cash trading, political and religious neutrality and promotion of education. With the spread of Co-operative Movement need was felt for adopting new procedures in the Co-operative sector. Consequently, international Co-operative alliance provided the following principles.

- **Voluntary & Open Membership:** Co-operation is a voluntary association i.e., there is no insistence at all either to fall in or to fall out. No one is compelled to join nor its membership closed afterwards. It also allows full freedom to leave the institution.

- **Self help and Mutual help:** It implies that the members work for mutual benefit. The benefit arising out of the collective effort is available to all members. “Each for all and all for each” is the motto of Co-operative activities.

- **Democratic control:** According to this principle, every member needs to be treated equally and every member has equal voting rights. The differences of wealth, caste, colour or creed do not affect the status of individual members.

- **Limited interest on capital and patronage rebate:**
  According to this principle, the excess income earned is dividend between the allocations made to the reserve fund and distribution made to the members which is limited from four to five percent to eight percent from country to country.

- **Political and Religious Neutrality:** According to this principle Co-operative society keeps itself aloof from all racial religious and political controversies and partition attitude excepting when its very existence is threatened. Unity is considered to be the fundamental force behind the Co-operative organization.

- **Principle of Publicity:** The Co-operative organizations do not believe in maintaining secrecy about its working and progress. It lays open before the public all the material facts.
After discussing the definition and principles of Co-operatives, efforts are taken to trace the history of Co-operative Movement from international, national and regional perspectives.

**Co-operative Movement – An International Perspective**

Though co-operation and mutual enterprise has been an essence of human-society ever since it evolved, the real Co-operative Movement can be credited to the Rochdale Pioneers. They made their first aim to establish co-operatives where the members would not only be their own merchants but also their own producers and their own employers. They had established the first Co-operative Consumer Store in North England. Thereafter many great thinkers, far-sighted men and visionaries were applying this concept to find practical solutions to the new problems and to work out better systems of social organization and as a result of it the concept was growing slowly. The history of Co-operative Movement in select countries has been presented below.

**Co-operative Movement in Germany**

Germany was the first country in the world to apply the principles of Co-operation in the field of credit. The Co-operative Movement was started in Germany in the middle of the 19th century. Herr F.W. Raiffeisen and Herr Franz Schulze the two pioneers introduced various measures of relief. In 1852 Schulze founded a society based on Co-operative principles and Herr F.W. Raiffeisen (1818-1888) constituted the Grand union of Rural Co-operative Societies also known as Raiffeisen Union in 1877, with the phrase “each for all and all for each” to safeguard the poor farmers, artisans, from poverty and the burden of debt. The decades that followed, the Co-operative idea spread throughout Germany and Europe. Due to the effectiveness of the Co-operatives and their increased economic importance and responsibilities, today, they are also present in growth sectors such as the services industry, data processing and new media industries and the education and health
sectors. This shows not only that Co-operatives are in tune with current developments in society but also that their core concept can be flexibly applied to the most diverse industry structures.

**Co-operative Movement in Britain**

Great Britain is the homeland of Co-operative Store Movement. The industrial revolution and the increasing mechanization of the economy threatened the livelihoods of many workers. **Robert Owen (1771–1858)** who is considered the Father of the Co-operative Movement pointed out the way of escape from the evils of competition through the organization of equitable associations. His ideas were put into effect successfully in the cotton mills of New Lanark. It was here that the first Co-operative Store was opened. Even though, the ideas of Robert Owen undoubtedly ended in failure, he inspired Co-operative Movement, others such as William King (1786–1865)—took his ideas and made Co-operative concept more workable and practical. A few poor weavers joined together to form the Rochdale Equitable Pioneers Society at the end of 1843. The **Rochdale Pioneers**, as they became known, set out the Rochdale Principles in 1844, which have been highly influential throughout the Co-operative Movement. In this way the modern co-operation started with the Rochdale Pioneers shop in the northern English town of Rochdale in 1844 with the aim of showing the people the way to a new and better social order.

**Co-operative Movement in Denmark**

The first Co-operative Movement in Denmark was started with the establishment of consumers’ stores in accordance with the Rochdale principles. The first Co-operative Store was established in 1886 in Thisted. This ushered in the start of the Agricultural Co-operative Movement which by the time of the First World War had expanded to its fullest extent. The fundamental principle of the Co-operative Movement has been one man- one vote. There is no special legislation in Denmark governing the
Co-operative Movement, but it functions on the basis of members need and demands of the day.

**Co-operative Movement in Japan**

The Co-operative Movement in Japan started in the middle of the last century. Co-operative Credit Organization known as ‘koh’ was the first to be established. The first consumer Co-operative was established in 1879. After Sino-Japanese war the usefulness of Co-operatives for improving the situation was recognized and to that end a Co-operative Law (industrial) was passed in 1900. In 1921 the industry Co-operative Law was improved, subsequently in 1923, the Central Industry Co-operative Bank (Norinchukin) was established by the Government. In 1938, Co-operatives faced a turning point. The Government tried to take advantage of the Co-operatives as tools to organize citizens during the hard times caused by the war between Japan and China and then during World War II. Consequently in 1947, the Agricultural Co-operative Law was established and encouraged the creation of local Co-operatives. In Japan, the agricultural co-operatives report outputs of USD 90 billion with 91% of all Japanese farmers in membership. In 2007 Consumer Co-operatives reported a total turnover of USD 34.048 billion with 5.9% of the food market share.

**Co-operative Movement in the USA & Canada**

In Canada and the United States, the roots of the Co-operative Movement sprang up for similar reasons. Rural Electric Co-operatives, Credit Unions, and Agricultural Co-operatives were founded to meet the needs of population, particularly rural which did not attract investment or where goods and services were provided at unfair prices.

In the early 20th century, Co-operatives in these two countries began to see a need for national organizations. In the United States, Co-operatives organized the Co-operative League of the United States of America, which later became the National Co-operative Business Association (NCBA). NCBA provides networking, technical
assistance, and development assistance and it helped pass legislation which formed the National Co-operative Bank in 1978. Today, NCBA remains the premier cross-sectoral link among co-operatives in the United States.

Canada enjoys an even stronger network of Co-operative support organizations. The Canadian Co-operative Association (CCA), provides educational services to its member Co-operatives and sponsors Co-operative development in lesser-developed nations. The Co-operative Housing Federation of Canada (CHF) provides technical assistance to develop and establish Co-operatives throughout English-speaking Canada. The contemporary Co-operative Movement is strong and diverse. Today Co-operatives exist all over Canada and the United States to serve almost every need.

**Co-operative Movement in Sweden**

Sweden is the second country where the Consumer Co-operative Movement has achieved a phenomenal success. It has one of the largest Co-operative Movements in the world, and the most progressive Movement in existence. It is difficult to say with definiteness, the year in which the first Co-operative Society was established in Sweden. It is believed that the Movement started on the Rockdale pattern. To begin with the Co-operative Store was set up on the Rockdale pattern, but did not prove a success. In 1899 a Central Organization known as Kooperative Forbundet (KF) was established and since then the Movement has continued to flourish.

**Co-operative Movement – National Perspective**

In India the Co-operative Movement was initiated by the Government. It spread and diversified with the encouragement and support of the government. Its present condition is also to a great extent because of the intrusive involvement of, and interference by the government. This section provides a brief review of the evolution of Co-operatives in general, and of Credit Co-operatives in particular, over the past century.
The Co-operative Movement in India owes its origin to agriculture and allied sectors. It was basically organized against the exploitation of unscrupulous money-lenders to liberate the farming community from the web of poverty and indebtedness. Initially, the Government of India adopted lot of measures to develop the conditions of the farming sector and to check the growing influence of the money lenders but large success could not be achieved. At that juncture, the Co-operative Movement had become well recognized in Europe and gained significant success. Influenced with the Co-operative Movement and realizing its need for liberating the Indian farmers from the overwhelming burden of debt and the domination of moneylenders, the Indian officials conceived the idea of promoting Credit Co-operatives in the country in 1892. And as such, the Madras Government promoted Co-operative Credit Societies in the light of Raiffeisen model credit societies on the basis of recommendation of Sir Fredrick Nicholson with the remark “find Raifféisen” in 1899. Accordingly, the passage of the Co-operative Credit Societies Act in 1904, and the enactment of a more comprehensive Co-operative Societies Act in 1912 marked the beginning of a Government policy of active encouragement and promotion of Co-operatives. As a next step, the researcher discusses the history of Co-operative Movement in the regional level in the ensuing paragraph.

Co-operative Movement –Regional (Tamil Nadu) Perspective

The Co-operative Movement in Tamil Nadu has over the decades witnessed substantial growth in diverse areas. From a small beginning, the Co-operative Movement in Tamilnadu has grown in strength over the years. Opening of a village Co-operative credit society in Thiroor in Thiruvallore District in 1904 marked the advent of the Co-operative Movement in Tamil Nadu ushering in a new era of services for the people of the state, particularly the agriculturist families. Co-operatives are also envisaged as an instrument for implementing many important policies like urban credit,
Having discussed the development in Co-operative Movement at the international, national and regional level, the researcher now discusses the various milestones in the growth of Indian Co-operative Institution.

**Stages in the growth of Co-operative Institutions in India**

The growth of Co-operative institutions in India was rather impressive. It has seen manifold increase in membership, deposits, and working capital, operational areas and other activities such as production and marketing activities, covering dairy, sugar, handicrafts etc. They are seen in various stages.

**The first stage (1904-1911)**

The introduction of the Co-operative Credit Societies Act in 1904 marked the beginning of the Co-operative Movement in India. During this period the number of societies went on increasing and in 1911 there were 5321 societies with 305.06 thousand members and Rs.203.05 lakhs as working capital. It was, however realized that the act had certain shortcomings in the sense that it did not provide any legal protection to the societies organized for the purposes other than credit or to the Central agencies, banks, unions etc. These defects were remedied by the Co-operative Societies Act of 1912.

**Second Stage (1912-1918)**

In order to curb the deficiencies of the Act 1904, the Government passed another Act in 1912. With the passage of this Act, Co-operatives started to expand as permission was granted to start the Co-operatives in other fields. During the second phase, the movement went on making rapid progress and the number of societies increased to 25,192 with 11 lakhs members and Rs. 760.09 lakhs as working capital.
Third Stage (1919-1929)

With the transfer of Co-operation as a provincial subject under the Reforms Act of 1919, the Co-operative Movement flourished in many state provinces. The Movement continued to make rapid progress. During this period, the number of credit societies reached 87991 with 30,04,000 members and Rs.32.38 crore as working capital. The number of Non-Credit Societies was 9,761 with 992000 members and Rs.13.63 lakhs as working capital. As no proper attention was given to the qualitative growth of Co-operatives, this period has been characterized as a period of indiscriminate and unplanned expansion.

Fourth Stage (1930-1938)

There was strong blow to the Indian Co-operative Movement due to the worldwide financial depression in 1929 and it hit hard the movement. Several Central banks were closed and many societies were wound up. Further expansion of the Movement was stopped and steps were taken to consolidate the position. During this period, the number of societies came down to 122000 with 53.7 lakh members. There was a marked decrease in the over dues in the case of agricultural credit societies.

Fifth Stage (1939-1946)

During this period, the Co-operative Movement made rapid progress as a result of the Second World War. A number of Consumers Co-operative Stores and Industrial Co-operatives were established. For instance, the number of societies increased from 122000 in 1938-39 to 172000 in 1945-46. The membership and working capital during the same period rose from 53.7 lakh to 91.6 lakh and Rs.106.47 crore to Rs.164 crore respectively. The war also gave fillip to the organization of non-credit societies and the multipurpose co-operatives. But, the prosperity of the movement was short.

Sixth Stage (1947-50)

After the attainment of independence on August 15, 1947, a large number of problems cropped up and the Movement passed through a difficult period however,
progress was maintained. During the period ending 1950-51, there has been phenomenal rise in the number of societies from 1,05,000 in 1939 to 1,48,000 in 1950-51. Membership rose from 3.6 million to 15.5 million. The paid up share capital and reserves rose from Rs.12.7 crore to Rs.18.5 crore and deposits from Rs.3 crore to Rs.6.4 crore during the period. But, in spite of all this, the working capital showed very little increase from Rs.31.6 crore in 1938-39 to Rs.35 crore in 1951.

Seventh Stage- (1951-1990)

The period of planned development witnessed one after another epoch-making events in the field of Co-operation. The recommendations of All India Rural Credit Survey committee for integrated programme of rural credit, led to the establishment of large sized societies all over the country. Consequently, at the end of 1959-60 there were 8,023 large-sized societies with a membership of 30.25 lakhs and working capital of 73.85 crore. The National Apex Bank for Agricultural and Rural Development (NABARD) as an Apex bank for monitoring the Co-operative Banks was formed. The State started to take the duty of strengthening the co-operatives, by introducing additional fund and “specialized” workforce. During the planned development period the Credit Co-operatives have done good work by meeting the agricultural credit needs. In the year 1977-78 the short-term and medium term loans amounted to Rs.1270.46 crore which were issued whereas in 1980-81 it stood at Rs.1991 crore.

Eighth Stage – (1990-2000)

Several committees were established to propose Co-operative sector reforms during this period. The Brahm Perkash Committee stressed the need to make co-operatives self reliant, autonomous and fully democratic institutions without any involvement of the State and proposed a Model Law. Andhra Pradesh and eight other States (viz., Bihar, Chhattisgarh, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Orissa and Uttaranchal) have passed similar legislation to govern and regulate
mutually aided co-operatives. The new law, however, did lead to the materialization of a “new generation autonomous financial co-operatives”, in a slow and uneven manner.

**Ninth Stage (2000 onwards)**

The rise of the new millennium has thrown many challenges to Co-operatives. The World Trade Organization restriction and threat from global Co-operative have grown. The Co-operatives are now in a position to meet the direct competition from multinationals. But, the Government is extending their valuable help for marketing, distributing and exporting their products not only in domestic market but also in international markets.

Having provided the brief description of growth of Co-operative Movement in India, the researcher elaborates on the forms of Co-operatives and their characteristics in the following paragraphs.

**Forms of Co-operatives and their characteristics**

All kinds of Co-operative Societies function on the similar and identical principle, but still they differ with regard to the nature of activities they execute. Some of the important types of Co-operatives are presented below.

**Primary Agricultural Co-operative Credit/Service Society**

The main aim of the Primary Agricultural Credit Service Societies is to provide agricultural credit to meet the demands of funds for agricultural production, the distribution of essential consumer commodities, the provision of storage and marketing facilities and for light agricultural implements and machinery. The Agricultural Primary Credit Society is the keystone on which the whole co-operative structure is formed. Even now these societies dominate the co-operative picture.

**Agricultural Non-Credit Societies:** Co-operative Credit Societies Act of 1904, which was amended in 1912 to permit the formation of societies for purposes other than credit and non-credit societies were brought officially under the aegis of the Movement. World War II (1939-45) came as a God sent boon with respect to the extension of the
Movement to non-credit activities, viz. Consumer’s Co-operative, Marketing Societies, Consolidation Societies, etc.

a. Agricultural Co-operative Marketing Society

India is the third largest agro-based country in the world but agricultural marketing, has obtained a far smaller place in the co-operative picture in India. Initially the marketing of agricultural produce has been undertaken jointly by the farmers who find it difficult to sell their products individually, through the organization of Co-operative Societies. The first marketing Co-operative Society was organized at Hubli in the former Bombay province in 1915. Since then number of societies has steadily increased.

b. Co-operative farming society

Co-operative farming means performing the agricultural activities on a co-operative basis. The bits of lands pooled together, is cultivated as if it all belonged to one individual. Thus, it facilitates the cultivators to benefit from the economies of large-scale farming through the pooling of land management resources. In India Co-operative farming societies were organized for the settlement of ex-army personnel, for rehabilitating displaced persons after the partition of the country, for growing more food and for economizing foreign exchange. In Tamil Nadu, land colonization societies have been organized for the benefit of depressed classes and landless laborers.

c. Consumer Co-operative Societies

The first Consumer Co-operative was established in Germany by 28 weavers with a capital of 28 pounds. It was a voluntary organization of consumers, organized to obtain their requirements of consumer goods and services on terms of greatest advantage to them. Its aim was to eliminate the intermediaries like wholesalers and retailers from the distribution channel and serve its members with goods required by them for households’ consumption.
Non Agricultural Co-operative Societies

- Housing Co-operative society
- Industrial Co-operative society
- Labour Co-operative society

Housing Co-operative society

These societies are formed to provide residential houses to the members. They purchase land, develop it and construct houses or flats and allot the same to the members. Further, Housing Co-operatives is a legal mechanism for ownership of housing where residents either own shares reflecting their own equity in the Co-operative’s real estate or have membership and occupancy rights in a not for profit Co-operative and they underwrite their housing through paying subscriptions or rent. Some societies also advances loan at low rate of interest to construct their own houses.

Industrial Co-operative Society

Industrial Co-operatives have been organized with two objectives namely social and economic upliftment of the people in below the poverty line. The most important social objective is to safeguard the interest of the poorest sections against exploitative trends and to pave way for diffusions and dispersal of wealth. The economic objective of these societies is to create employment opportunities for the people by increasing the production and productivity of the units and to inculcate competitive capability and acceleration in the field of Trade and Industries. The Reserve Bank of India has classified Industrial Co-operatives Societies into Weavers’ Societies, Spinning Mills, Industrial Estates, Industrial Co-operative Banks and other Industrial Societies.

Labour Co-operatives

A Labour Co-operative Society is a form of organization for the employment of a group of workers who associate to work together for a joint reward. Its chief characteristics are that the workers choose their workmates select the leader and make the division of the proceeds of their collective labour in accordance with their choice.
Miscellaneous

Dairy Co-operatives: Dairy Co-operatives were among the first type of agricultural Co-operatives organized in the U.S. They have been started in the early 1800s. Dairy Co-operatives have played a very significant role in the procurement, processing and marketing of milk and dairy products and in representing farmers politically at both the state and national level.

Multipurpose Societies: Multipurpose societies undertake all activities affecting the daily life and business of the agriculturist artisans. Their main functions are financing crop production, providing seed, fertilizer and agricultural implements, serving as milk collecting station and acting as an agent for sale of crop.

Service Co-operatives: A service Co-operative is an organization of villagers who have willingly combined for mutual help and co-operation in meeting their common economic requirements, and in increasing agricultural production.

Having discussed the different type of Co-operative Societies, the researcher now presents an analysis of the development of Co-operative Banks in International, National and Regional level in succeeding paragraphs.

Introduction to Co-operative Banks – An International Perspective

The history of many Co-operative Banks can be traced to the financial exclusion faced by many sections of the population in the 19th century Europe. With the industrial revolution in full swing, the emerging financial services sector was primarily focused on wealthy individuals and large enterprises found in urban areas. The rural population in particular, farmers, small businesses and the communities they supported, were effectively excluded from financial services.

Co-operative Banks proved the ideal solution to correct this market failure. Founded in local areas under the principles of solidarity and democracy, these institutions were specifically created to fill the vacuum and provide financial services to the otherwise unbanked population. The first Co-operative was formed in 1872 as the
Loan and Deposit Department of Manchester's Co-operative wholesale, becoming the Co-operative Wholesale Society (CWS) Bank four years later. However, only in 1975 the bank became the first new member of the committee of London clearing banks for 40 years and was thus able to issue its own cheques.

**Introduction to Co-operative Bank – National & Regional perspective**

In the early 19th century, the accessibility of credit in India, more particularly in rural areas was not in existence. There was no organized institutional credit for agricultural and related activities. People in the rural areas largely depended on money lenders who lent money at very high rates of interest. Thus, with the aim of providing an alternative to exploitation by money lenders the first known Co-operative Bank Ltd in India namely ‘Anyonya Sahakari Mandali’ was established in the city of Vadodara (formerly known as Baroda) in Gujarat in 1889. However, the real impetus to the Co-operative Bank Movement was given only by the enactment of Co-operative Credit Societies Act, 1904. The first Town Co-operative Bank (Peria Kancheepuram Town Co-operative Bank) was established in Kancheepuram in the year 1904 in Tamil Nadu. After discussing the history of Co-operative Banks, the general classification of Co-operative banks and the structure of Credit Co-operative Banks are subject to focus in the succeeding paragraphs.

**Classification of Co-operative Banks**

The Co-operative System in India can be classified into two types viz., Credit and Non-credit Co-operatives (Chart 1). The Credit Co-operative has a three tier structure for the distribution of Rural Credit with Primary Agricultural Credit Co-operatives at the village level, District Central Co-operative Banks at the District level and State Co-operative Banks at the State level. The urban areas are served by urban credit Co-operatives. The Non-credit Co-operatives include Producers’ Societies, Consumer Co-operatives and others like Housing, Transport, Insurance, Labour, Farming Co-operatives etc.
Structure of Credit Co-operative Banks

The Co-operative Banking structure in India comprises two main components, viz., Urban Co-operative Banks, Rural Co-operative Credit Institutions. The chart representing the structure of Co-operative Credit Institutions in India is presented below.

Urban Co-operative Banks

Urban Co-operative Banks (UCBs), are further sub-divided into Scheduled and Non-scheduled UCBs and these banks serves the financial need of weaker sections of the people in urban areas. The operations of UCBs are restricted to either one State.
(single-State) or stretch across States (multi-State). Most of the Non-scheduled UCBs are primarily single State UCBs having a single tier structure. Generally speaking, Urban Co-operative Banks have got unitary structure, which is based on the presumption that the urban banks will be affiliated to the D.C.C.Bs.

**Rural Co-operative Credit Institutions**

Rural Banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector but now, through its short and the long-term structures they have received wide outreach particularly among the rural and vulnerable segments of society. These institutions are beset with problems like low resource base, high dependence on external sources of funding, excessive Governmental control, huge accumulated losses, poor business diversification, low recovery, etc. But still they continue to play a crucial role in the dispensation of credit for agriculture and rural development. Rural Co-operatives have a complex structure and are not uniform across the States of the country. It has two distinct structures, *viz*.,

- Short-Term Co-operative Credit Structure (STCCS) and
- Long-Term Co-operative Credit Structure (LTCCS).

As the focus of the present study is on the District Level Co-operative Bank, a middle tier Rural Co-operative Credit Institution, the structure of the Rural Co-operative Banks has been explained in the following paragraphs.

**Structure of Short Term Co-operative Credit Structure**

The STCCS is essentially a three tier structure which is described as follows:

- Primary Agricultural Credit Societies (PACS) at the Village level
- District Central Co-operative Banks (D.C.C.Bs) at the District level
- State Co-operative Banks (SCB) at the State level
**Primary Agricultural Credit Societies (PACs)**

PACS is the foundation of the Co-operative Credit System on which the super structure of the short-term Co-operative credit system is built. It has a direct interface with individual farmers and provides short term and medium term credit, supplies agricultural inputs, distributes consumer articles and arranges for marketing of produce of its members through a Co-operative marketing society. The progress of Primary Agricultural Co-operative Societies during the study period is presented below.

**Table-2.1 showing the Progress of PACs**

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Societies</th>
<th>Total Membership</th>
<th>Deposits</th>
<th>Borrowings</th>
<th>Total Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. in thousands )</td>
<td></td>
<td>(Rs. in lakhs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>101,546</td>
<td>108,627</td>
<td>1,245,855</td>
<td>2,234,962</td>
<td>4,271,013</td>
</tr>
<tr>
<td>2000-01</td>
<td>98,843</td>
<td>99,918</td>
<td>1,348,107</td>
<td>2,588,966</td>
<td>5,386,747</td>
</tr>
<tr>
<td>2001-02</td>
<td>98,247</td>
<td>102,141</td>
<td>1,484,570</td>
<td>2,947,508</td>
<td>5,190,490</td>
</tr>
<tr>
<td>2002-03</td>
<td>112,309</td>
<td>123,552</td>
<td>1,912,023</td>
<td>3,027,791</td>
<td>6,114,243</td>
</tr>
<tr>
<td>2003-04</td>
<td>105,735</td>
<td>135,411</td>
<td>1,814,253</td>
<td>3,425,718</td>
<td>6,204,685</td>
</tr>
<tr>
<td>2004-05</td>
<td>108,779</td>
<td>127,406</td>
<td>1,897,604</td>
<td>4,024,949</td>
<td>7,540,741</td>
</tr>
<tr>
<td>2006-07</td>
<td>97,224</td>
<td>125,792</td>
<td>2,348,407</td>
<td>4,371,449</td>
<td>7,995,869</td>
</tr>
<tr>
<td>2007-08</td>
<td>94,950</td>
<td>131,530</td>
<td>2,544,926</td>
<td>4,784,797</td>
<td>8,810,685</td>
</tr>
<tr>
<td>2008-09</td>
<td>95,633</td>
<td>132,350</td>
<td>2,624,538</td>
<td>4,893,844</td>
<td>9,458,488</td>
</tr>
</tbody>
</table>

Source: http://www.nafscob.org/

It is understood from the above table that the number of Co-operative Societies declined from 101546 thousand to 95,633 thousand during the study period; however, the membership in the PACs marked a growth of 21.84 per centage. Moreover, the deposits, borrowings and working capital have also increased from Rs.12,45,855 lakhs, Rs. 2,23,496 lakhs, Rs. 42,71,013 lakhs to Rs. 26,24,538 lakhs, Rs.48,93,844 lakhs, Rs. 94,58,488 lakhs respectively. Further the outreach of Co-operatives besides
supporting agricultural credit expansion in rural and remote areas has the potential to increase the credit flow to small enterprises, retail trade and other developments sectors like education and training.

**District Central Co-operative Banks**

The D.C.C.Bs occupies a position of cardinal importance in the Co-operative Credit Structure. They form an important link between the Apex Co-operative Bank and the Primary Agricultural Credit Societies. The success of the Co-operative Credit Movement largely depends upon the success of D.C.C.Bs. These banks are very strong in states. But their growth, development and performance have been uneven, and lack uniformity due to various reasons. **The growth and significance of District Central Co-operative Bank is explained under a separate section.**

**State Co-operative Bank**

State Co-operative Bank, which is at the top of the credit structure, is also called the Apex bank. Its functions are to co-ordinate and to guide the working of the District Central Co-operative Banks and to arrange re-finance for them. It thus acts like a supervisory body at the top and arranges to spread the co-operative movement. During recent years SCBs have also started performing certain general utility functions. The progress of SCB for the past 10 year period is presented below.
Table -2.2 showing the Progress of State Co-operative Bank

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SCBs</th>
<th>Total Membership</th>
<th>Total Deposits (Rs. in Thousands)</th>
<th>Total Borrowings (Rs. in Thousands)</th>
<th>Investments (Rs. in Lakhs)</th>
<th>Total Loan Issued (Rs. in Lakhs)</th>
<th>Total Loans Outstanding (Rs. in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>29</td>
<td>136856</td>
<td>2927892</td>
<td>1093544</td>
<td>1204339</td>
<td>3989345</td>
<td>2535701</td>
</tr>
<tr>
<td>2000-01</td>
<td>30</td>
<td>122464</td>
<td>3261295</td>
<td>1198335</td>
<td>1304016</td>
<td>3361254</td>
<td>2548276</td>
</tr>
<tr>
<td>2001-02</td>
<td>30</td>
<td>104607</td>
<td>3617028</td>
<td>1168348</td>
<td>1434440</td>
<td>3406531</td>
<td>3255352</td>
</tr>
<tr>
<td>2002-03</td>
<td>30</td>
<td>133688</td>
<td>3911178</td>
<td>1198508</td>
<td>1648501</td>
<td>3920286</td>
<td>3505215</td>
</tr>
<tr>
<td>2003-04</td>
<td>30</td>
<td>150975</td>
<td>4286301</td>
<td>1352265</td>
<td>1847687</td>
<td>3486449</td>
<td>3563719</td>
</tr>
<tr>
<td>2004-05</td>
<td>30</td>
<td>156623</td>
<td>4406765</td>
<td>1467097</td>
<td>2132806</td>
<td>4432506</td>
<td>3530652</td>
</tr>
<tr>
<td>2005-06</td>
<td>30</td>
<td>153697</td>
<td>4767221</td>
<td>1687166</td>
<td>2274990</td>
<td>4880354</td>
<td>3896099</td>
</tr>
<tr>
<td>2006-07</td>
<td>31</td>
<td>148771</td>
<td>4919758</td>
<td>2215024</td>
<td>2397029</td>
<td>4706898</td>
<td>4667581</td>
</tr>
<tr>
<td>2007-08</td>
<td>31</td>
<td>150917</td>
<td>5628692</td>
<td>2160638</td>
<td>2688544</td>
<td>5331376</td>
<td>4910143</td>
</tr>
<tr>
<td>2008-09</td>
<td>31</td>
<td>200772</td>
<td>7131507</td>
<td>2158221</td>
<td>4035004</td>
<td>5186621</td>
<td>4620084</td>
</tr>
</tbody>
</table>


It can be understood from the above table that the members of State Co-operative Bank marked a growth of 2,00,772 thousand in the year 2008-09 from 136856 in the year 1999-00. The aggregate loans issued by the State Co-operative Bank was increased to Rs. 5186621 lakhs in the year 2008-09 from Rs. 3989345 lakhs in 1999-00, registering a growth rate of 30.01%. Similarly borrowings, investments have also marked a growth rate of 97.36%, 235.04% respectively during the study period.

As the study was carried out in District Central Co-operative Banks, a detailed analysis of its functions, trend and progress at national level and regional level are presented below.

**An overview of District Central Co-operative Bank**

District Central Co-operative Bank (D.C.C.BS) as the name suggests has an area of operation covering a single District. D.C.C.Bs are superfluous intermediaries in between the apex bank, the actual lender of funds and the Primary Agricultural Co-operative Credit Societies. It is a federation of primary societies in a specified area. It is
located at the head quarters of important Districts. The financial schemes and agricultural development credit schemes of the State Government, Central Government, and State Co-operative Banks are routed through the Central Co-operative Banks. In the words of G.M. Laud, the raison d’être for the establishment of District Central Co-operative Banks is that “there should be an intermediary agency between PACs with rural bias run by the agriculturists having no touch with the money market and the provincial bank mainly run by the city man with urban bias and having no close association with the countryside”\textsuperscript{56}. Undertaking Central banking activities, accepting deposits, lending loans and advances, recoveries are the main functions of D.C.C.Bs.

**The NABARD Act in 1981, provides the following definition of a CCBs**

Central Co-operative Banks means the principal Co-operative society in a District of a state, the primary object of which is the financing of other Co-operative Societies in that District.”\textsuperscript{57}

**Role and Functions of D.C.C.Bs**

The District Central Co-operative Banks play multiple roles. Some of these are discussed below:

**Banking Entity**

The D.C.C.Bs are banking entities recognized by the Reserve Bank of India under the Banking Regulations Act. They accept deposits from general public and provide loans to individuals and institutions including Primary Co-operative Societies. They are governed by the various regulations stipulated by the Reserve Bank of India from time to time.

\textsuperscript{56} G.M. Laud, Co-operative Banking in India, p.336.

**Leader of Co-operative Movement**

One of the most important tasks of the D.C.C.B is to provide financial support to the Primary Co-operative Societies that are affiliated to it in the District especially the PACs. The authorized officials of the D.C.C.Bs examine the PACS affiliated to them periodically. In addition to this, they conduct training programmes for secretaries and directors of the board of the PACS and Periodical seminars to update the staff and members of PACS on important developments affecting them.

**Leader in Agricultural Lending**

The D.C.C.Bs have been considered as the most important financial institution to support the short term credit requirements of the agricultural sector. They provide both production loans and marketing loans to the members. The D.C.C.Bs convene the "District Level Technical Committee" to fix the scale of finance for each major agricultural crop in the District on the basis of which production loans are usually extended.

**Board of the D.C.C.Bs**

The Board of the D.C.C.Bs consists of elected Chairmen of PACS, representative of the State Government and the State Co-operative Bank apart from the Chief Executive Officer of the D.C.C.Bs who would be the member secretary. The board meets periodically to review the performance of the bank and provide policy guidance. The board of the D.C.C.Bs thus represents the interests of the major stakeholders in the bank. In order to carry out its functions effectively, the board can constitute sub committees of the board.

**Co-operative Governance**

With regard to governance in banks, the issues involved include greater transparency in balance sheet, appropriate internal control systems and having defined and well stated policies. The board is expected to exercise objective judgment on corporate affairs, provide direction, oversee and monitor and act in good faith,
emphasize on ethical practices, review performance of top management, ensure a wise asset use policy and assure a sound long term policy. The management is responsible for day to day operations.

**Resource Mobilization and utilization:**

Any banking institution performs two primary functions; raising resources from those who have financial surpluses and deploying them by providing those to persons who can utilize them productively. D.C.C Bs raise funds through Deposits, Capital and Reserves, Borrowings, Other sources, the funds raised are effectively utilized for Loans and advances and Investment. The details about each and every above said source and uses of funds are discussed in an elaborate manner in a separate chapter.

**Origin and Growth of D.C.C Bs**

There was no provision initially in the Co-operative Society’s Act of 1904 when it was passed, for the formation of Central Societies or Central Co-operative Banks. The sponsors of the Co-operative Movement expected that the rural credit societies would be able to attract substantial deposits from the members and well to do sections of the village community and their savings would be available to meet the needs of the needy people in the villages. But these expectations of the promoters did not materialize. The isolated and poorly managed societies failed in the first instance, to tap funds from the more affluent; secondly they could not augment their own capital base by encouraging thrift and self help among their members. The Co-operative Societies Act was therefore, amended in 1912 and it provided for the setting up of Central societies. After the above enactment, the Primary Co-operative Credit Societies federated themselves in to banking unions and formed Central Banks. The first Central Co-operative Bank established in India was the “Madras Central urban bank” and thereafter, Central Co-operative banks are formed one after another in every District.

During the five years period from 1910 to 1915, the growth in the number of primary societies was rapid, and the number of societies of all kinds for the period was
around 11555. Further, the number of Central Co-operative Banks increased from 233 in 1919-20 to 588 in 1929-30 while their membership increased from Rs.1.22 lakhs to Rs.1.91 lakhs. The total working capital rose from Rs.6.43 crores to Rs. 30.90 crores. The onslaught of depression in the thirties adversely affected the working capital of the Central Co-operative Banks.

The membership of the individuals declined from Rs. .90 lakhs in 1929-30, to Rs. .85 lakhs in 1936-37, while that of the societies from Rs. 1.01 lakhs to Rs. .91 lakhs. The number of these banks, however, increased from 588 in 1929-30 to 592 in 1936-37 because of the registration of new banking unions and then rose to 601 in 1945-46.

The number of District Central Co-operative Banks which stood at 505 in 1951-1956 was reduced to 346 in 1965—66 due to amalgamation. But still the share capital of these banks increased from Rs. 4.04 crore to Rs. 76.32 crore. Deposit of these banks reached Rs.236.59 crore in 1965-66 from Rs. 37.79 crore in 1951-56. Loans and advances issued by the bank has also raised to Rs. 583.52 crore from Rs. 56.37 crore during 1951-56 to 1965-66.

Later on, in 30.6.1974, the total deposits of the Central Banks had reached Rs.1376.6 crore. On an all India level, the average deposits per bank moved from Rs.213.4 lakhs in 1974 to Rs. 400 lakhs in 1978.

Further, the number of Co-operatives Banks increased from 352 in 1985-86 to 364 in 1995-96. The share capital of the bank registered an increase from Rs.49908 lakhs in 1985-86 to 1,64,761 lakhs in 1995-96. Deposits also raised to Rs. 2,24,822 lakhs from Rs.2,28,988 lakhs during the same period.

The following table shows the progress of these banks from 1999-00 to 2008-09
It is observed from table 2.3 that the number of District Central Co-operative Banks gradually increased from 369 in 1999-00 to 373 in 2008-09 i.e only by four in number. The paid up capital, reserves, total borrowings and working capital were increased by 118%, 237%, 98%, and 132% respectively. Further, investments, loans issued and loans outstanding have also registered a growth rate of 181%, and 76.6%, respectively. But, deposits declined from Rs. 5382693 lakhs to Rs. 1450679 lakhs i.e., by 735, during the period 2001-01 to 2008-09.

**Trend and progress of D.C.C.Bs in Tamil Nadu:**

The Madras Central Urban Bank was the first Central Co-operative Bank in Tamil nadu and it was registered on October 19, 1905 under the act X of 1904 with the objective of augmenting funds from all parts of the state to finance the societies. Thereafter, in order to facilitate the process of mobilization of abundant funds from the big cities of the state, many Central Banks were formed in each and every District headquarters. For instance, Salem District Urban Bank and Coimbatore District Urban Bank were established on 25th March 1909 and on 16th September 1910 respectively and later on all these banks were turned out as Central Co-operative Banks. The number of Central Co-operative banks in Madras (included Andhra Pradesh, Kerala and parts of Karnataka) gradually increased during twenties and it reached 32 in 1930-31. But after the reorganization of states in 1956-57, this number of Central Banks was reduced to 15 as on June 30th 1958, as most of the Central banks falling in the parts of Andhra Pradesh, Kerala, and Karnataka were transferred to the respective states. During seventies and eighties, there was strong expansion of branches of Central Banks. Further during 1993-04 there were 17 Central Banks serving 21 Districts and it increased to 23 in 1997-98.

The share capital of D.C.C.Bs also rose from Rs. 10971 lakhs in the year 1993-94 to Rs.21931 lakhs in the year 1997-98 i.e. nearly by 100%. The reserves, deposits, working capital stood at Rs. 13786 lakhs, Rs.157116 lakhs, and Rs.282416 lakhs
respectively in the 1993-94. Further they rose to Rs. 136582 lakhs, Rs. 364774 lakhs, and Rs.609482 lakhs in the year 1997-98, by increasing 891%, 132%, 116% respectively. Similarly loan outstanding also increased from Rs.209441 lakhs in 1993-94 to Rs.420823 lakhs in 1997-98. The District Central Co-operative Banks progress during the period 1999-00 to 2008-09 is presented below.

Table- 2.4 showing the Progress of D.C.C.Bs in Tamil Nadu

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of D.C.C.Bs</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Number of Offices</td>
<td>708</td>
<td>723</td>
<td>731</td>
<td>739</td>
<td>732</td>
<td>732</td>
<td>732</td>
<td>733</td>
<td>732</td>
<td>732</td>
</tr>
<tr>
<td>Including H.O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid up Capital</td>
<td>282</td>
<td>307</td>
<td>361</td>
<td>393</td>
<td>423</td>
<td>448</td>
<td>509</td>
<td>894</td>
<td>1118</td>
<td>NA</td>
</tr>
<tr>
<td>Total Reserves</td>
<td>665</td>
<td>816</td>
<td>1019</td>
<td>1362</td>
<td>1703</td>
<td>1428</td>
<td>1991</td>
<td>2272</td>
<td>2431</td>
<td>NA</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>6030</td>
<td>6414</td>
<td>6855</td>
<td>7316</td>
<td>7105</td>
<td>6987</td>
<td>7033</td>
<td>7393</td>
<td>8982</td>
<td>10317.31</td>
</tr>
<tr>
<td>Total Borrowings</td>
<td>1022</td>
<td>1316</td>
<td>1469</td>
<td>1545</td>
<td>2023</td>
<td>2383</td>
<td>2643</td>
<td>1935</td>
<td>1984</td>
<td>NA</td>
</tr>
<tr>
<td>Working Capital</td>
<td>8767</td>
<td>9743</td>
<td>10595</td>
<td>11432</td>
<td>12023</td>
<td>12197</td>
<td>13107</td>
<td>13568</td>
<td>15536</td>
<td>NA</td>
</tr>
<tr>
<td>Investments</td>
<td>2751</td>
<td>2857</td>
<td>2860</td>
<td>2686</td>
<td>2675</td>
<td>2784</td>
<td>2525</td>
<td>2422</td>
<td>2826</td>
<td>NA</td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
<td>5014</td>
<td>5787</td>
<td>6401</td>
<td>7070</td>
<td>7632</td>
<td>8133</td>
<td>8740</td>
<td>9130</td>
<td>11010</td>
<td>12560.38</td>
</tr>
</tbody>
</table>


It is observed from Table 2.4 that the number of District Central Co-operative Banks remained static during the study period. However, the deposits, loan outstanding etc registered a gradual increase to an extent of 71.10%, 150.51% respectively during the period from 1999-00 to 2008-09. The paid up capital, reserves, working capital, and investments increased considerably to an extent of 296.45%, 265.56% , 77.21% and 2.72% respectively during the period 1999-00 to 2007-08.

It is evident from the above discussion that the growing demand has necessitated the development of Central Co-operative Banks in Tamil Nadu and they
form the back bone of Co-operative system. After reviewing the growth of D.C.C.Bs, the reform measures made applicable to Rural Co-operative Banks are discussed below.

**Reforms in Rural Co-operative Banking Sector**

A century old history of Indian Co-operative Movement reflects a chronology of reforms showing that the Co-operative system has been evolving and reinventing itself with the passage of time. Even today, it is evolving and reinventing. Hence, a look needs to be taken at the reform process and what it means to the Co-operative Credit Institutions.

**Early Reform Initiatives**

Early reform initiatives started from 1912 when the 1904 Co-operative Credit Societies Act was replaced by the Co-operative Societies Act of 1912 for widening the scope of legal framework for Co-operatives both in rural and urban areas. Accordingly many Non-Credit Societies such as Workers Co-operatives, Consumer Co-operatives, Marketing Co-operatives, etc have been established.

The next important reform initiative was the organization of a well knit structure of Co-operatives comprising with Primary Co-operatives at the grass root level, Co-operative unions at secondary level and apex societies at provincial level according to the recommendation of Committee on Co-operation, popularly known as Maclagan Committee.

The Implementation of multi-purpose Co-operative Societies at the village level and promotion of Co-operatives in the activities allied to agriculture according to the recommendations of Co-operative Planning Committee (in 1944) resulted into great deal of diversification of Co-operative Movement in the country.

The implementation of recommendation of All India Rural Credit Survey (AIRCS) Committee (1951) led to the emergence of State partnership at all levels of Co-operatives in the form of share capital contribution, provision of technical, managerial and financial assistance. With Government involvement, Co-operatives
came to be perceived as agencies of the State rather than an autonomous member based economic enterprises.

The incorporation of provisions such as Registrar can amend bye-laws, ‘Government can nominate Directors’, ‘Supersession/suspension of Committee of Management’, etc., in the States Co-operative Legislation, based on the Mirdha committee (1965) recommendations, has destroyed the autonomous and democratic character of Co-operatives. The character of the Co-operatives in the 1950 to 1990 period had changed from member centric to state-centric.

**Economic Reforms of 1991**

The financial sector reforms in India were initiated in banking sector in 1991, to bring the transparency in banking functions and to observe norms on the lines and with international banking institutions. The reform process includes introduction of prudential regulations relating to capital adequacy, income recognition and provisioning, progressive deregulation of interest rates and downscaling of statutory reserve requirements. Although, reforms in the banking sector were initiated in commercial banks much earlier (beginning 1991-92), the reform process in the Co-operatives has taken a longer time to get started. It was because of the need for generating a consensus among various state governments which govern and control the Co-operative Credit Institutions and to balance the interests of many diversified groups.

In the meantime, the passage of the Mutually Aided Co-operative Societies Act by the Andhra Pradesh Government in 1995 according to the model law proposed by Chaudhary Brahm Prakash committee marked a significant step towards reforms. Moreover, many committees, notably those headed by, Jagdish capoor, Vikhe Patil and V.S Vyas, Committees have also recommended revamping and streamlining the regulation and supervision mechanism, introducing prudential norms and bringing Co-operative Banks fully under the ambit of the Banking Regulation Act, 1949.
Further in order to make the Co-operative institutions more competitive one by improving its financial health and removing external constraints, a few major reforms, were introduced and out of these the most important of them are explained below:

- Deregulated interest rates on advances and deposits by SCBs / DCBs
- Lower Cash Reserve and Statutory Liquidity Requirements
- Relaxation in branch expansion policy
- Applicability of Prudential norms to SCBs / D.C.C.Bs
- Preparation of Development Action Plans and entering into MoUs at the instance of NABARD,

**Deregulation of interest rates:**

The SCBs and D.C.C Bs were given freedom from the interest rate regulations with effect from 18 October 1994 subject to the prescription of floor lending rate of 12 per cent. This was based on the recommendation that interest rates should increasingly be allowed to be determined by market forces suggested by Narasimhan Committee on Financial Sector Reforms (1991).^58^

**Lower Cash Reserve and Statutory Liquidity Requirements**

During the early 1980s, statutory pre-emption in the form of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) accounted for 42% of the deposits. In the 1990s, the figure rose to 53.5%, which during the post-liberalization period has been gradually reduced. At present, Co-operative Banks are required to maintain a CRR of 3% of their total Demand and Time Liabilities (NDTL) obtaining on the last Friday of the second preceding fortnight. The SLR, which was at a peak of 38.5% during September 1990 to December 1992, now stands lower at the statutory minimum of 25% while the legal upper limit has remained at 40%.

• **Branch Expansion policy**

RBI liberalized the branch licensing policy of UCBs in May 1993 based on the Marathe committee (1992) recommendation to dispense with “one District – one Bank” licensing policy\(^{59}\). Earlier, RBI did not favour Co-operative Banks operating outside the district except in rare circumstances with a view to promote balanced growth of the Urban Co-operative Banking and to avoid unhealthy competition amongst Co-operative Banks.

Further RBI has revised the licensing norms for Rural Co-operative Banks based on the recommendations of Dr. Rakesh Mohan Committee (2009). Accordingly, Rural Co-operative Banks should have Capital Risk Assets Ratio of 4% and above as per the last inspection report of NABARD and they should have complied with the CRR and SLR requirements during the last one year to get license issued. Further, as a one-time measure, RBI has delegated to its regional units the powers to grant licenses to Co-operative Banks. Consequent upon there are 195 (22 SCBs and 173 D.C.C.Bs) licensed banks as on 31 March 2010.

**Application of Prudential Norms to Co-operative Banks**

Prudential Norms mean the use of prudent benchmarks and common yardsticks to understand the financial position of financial institutions. Thus, the position of a bank in India using prudential norms can be compared with a bank in another country. It will also reflect the real position of the bank. The major prudential norms adopted in Indian Banking system are:

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• Income Recognition
• Asset Classification
• Provisioning
• Capital adequacy norms

These prudential norms (excluding capital adequacy norms) were made applicable to SCBs and D.C.C.Bs from the year 1996-97 and in respect of SCARDBs and PCARDBs, from the year 1997-98 in order to bring transparency in financial operations of Co-operative Banks.

**Income Recognition and Asset Classification (IRAC) Norms**

The income recognition and asset classification relates to transparency. According to these norms, a loan account was classified as 'Non-Performing Asset' (NPA) if either the interest or an installment has remained unsettled for two quarters (i.e., 180 days) and with regard to agriculture advances if interest has remained unpaid during the last two harvest seasons (covering two half years) after it has become past due (i.e. 30 days beyond the due date). Later i.e, with effect from March 2001 the past due concept was removed and overdue concept was introduced. As a result, NPAs are to be recognized 30 days earlier than they were to be before 2001. Accordingly, an asset will be classified as NPA if it remains overdue for a period of more than 180 days. But, with effect from 31.03.2006 the 180 day norms was replaced by 90 days norms. This shift in NPA norms will lead to rise in the NPA level of a bank.

According to income recognition norms, the income derived from non performing assets should be recognized as income only when it is actually realized but not on accrual basis.

With regard to classification of assets norms, banks were required to classify all their loans and advances into four broad groups (i) Standard Assets (ii) Sub-Standard Assets (iii) Doubtful Assets and (iv) Loss Assets. The norms for classification of asset are presented below.
Table 2.5 showing the RBI Norms for Classification of Assets

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>When Categorized (with effect from 31.3.2006)</th>
<th>Until 31.03.2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Assets</td>
<td>Assets which does not disclose any risk</td>
<td>Assets which does not disclose any risk</td>
</tr>
<tr>
<td>Sub Standard Asset</td>
<td>Asset which has remained NPA for a period less than or equal to 12 months.</td>
<td>Asset which has remained NPA for a period not exceeding 3 years</td>
</tr>
<tr>
<td>Doubtful Assets</td>
<td>It has remained in the substandard category for a period of 12 months.</td>
<td>It has remained in the substandard category for a period exceeding 3 years</td>
</tr>
<tr>
<td>Loss Assets</td>
<td>Asset where loss has been identified by the bank but the amount has not been written off wholly.</td>
<td>Asset where loss has been identified by the bank but the amount has not been written off wholly.</td>
</tr>
</tbody>
</table>

Source: www.rbi.org.in

Provisioning Norms

After the categorization of assets into various categories, certain percentage of the outstanding loan amount required to be provided for towards the anticipated loss of doubtful assets. The Co-operative Banks were granted phasing of provisioning spread over a four-year period (up to 1999-2000) in the case of the Short term structure and three years (up to 1999-2000) in the case of the Long term structure.

Phasing in provisioning requirement was as follows:

(i) First year of introduction of Prudential Norms (1996-97): 100% in respect of loss assets and not less than 30% of the provisioning needed in respect of sub-standard and doubtful assets.

(iii) Reserve Bank of India gave further relaxation of one year to those banks who find it difficult to comply with\textsuperscript{60}.

The particulars of provisioning requirements are presented below.

**Table 2.6 showing the Provisioning Norms**

<table>
<thead>
<tr>
<th>Classification of Assets</th>
<th>Basis for provision</th>
<th>Provision in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Assets</td>
<td>A general provision with effect from 31/3/2000 is to be made @</td>
<td>0.25%</td>
</tr>
<tr>
<td>Substandard assets</td>
<td>Out of total outstanding loan, provision is to be made @</td>
<td>10%</td>
</tr>
<tr>
<td>Doubtful Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Unsecured</td>
<td>Provision is required for entire unsecured portion @</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td><em>Provision is based on the period for which the asset has remained.</em></td>
<td></td>
</tr>
<tr>
<td>b. Secured</td>
<td>Overdue above 3 years, and upto 4 years</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Overdue over 4 years, but not exceeding 6 years</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>Overdue exceeding 6 years</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Additional provision with effect from 31\textsuperscript{st} March.2005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overdue exceeding 6 years as on 31.03.07 –</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Required provision as on –31.03.08</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>As on -31.03.09</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>As on –31.03.010</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Overdue exceeding 6 years after 31.03.07</td>
<td></td>
</tr>
</tbody>
</table>

| Loss Assets              | Entire assets to be written off                           | 100%           |

Source: www.rbi.org.in

The Prudential Norms not only facilitated the standardization of the whole exercise such as income recognition, classification of loan assets and provisioning but also brought about uniformity in maintenance and disclosure of financial information which

\textsuperscript{60} K.C.Sharma et al, Recovery management in Rural Credit, NABARD, 2001, pp 7-8.
has facilitated the inter-bank comparison. Implementation is being monitored by NABARD on an on-going basis through Special Cells created at regional levels.

**Capital Adequacy Norms**

Basel Committee prescribed the capital adequacy norms for banks to maintain the soundness and stability and to diminish existing source of competitive inequality among international banks. Subsequently, on the basis of the Narashimhan Committee’s recommendation, RBI introduced the Minimum CRAR of 8% in 1992 for commercial banks. Further, in pursuance to the recommendations of the High Power Committee (Madhav Rao Committee), the UCBs were brought under the CRAR discipline with effect from March 31, 2002, in a phased manner.

However, at present, State and Central Co-operative Banks are outside the Capital to Risk weighted Assets Ratio (CRAR) framework. However, they were advised to disclose their CRAR as on March 31, 2008 and thereafter every year as ‘Notes on Accounts’ to their Balance Sheets.61

**Development Action Plans (DAP) / Memorandum of Understanding (MoU)**

Development Action Plans or Memorandum of Understanding is the mechanism developed by NABARD. The process of preparing DAPs / MoU an institution specific measure began in 1994-95. The state level MoUs are implemented between the State government and NABARD, and the district level MoUs are executed among DCCBs and SCBs etc., DAP an internal strategy which describes the performance obligations forms the basis of MoU between these institutions. It was executed in three stages, 1994-95 to 1999-2000 (stage-I), 2000-01 to 2003-04 (stage-II) and 2004-05 to 2006-07 (Stage-III). As on 31 March 2009, 21 SCBs and 9 SCARDBs had executed

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“DAP/MoU” (Phase IV) with state governments and NABARD. The DAP are regularly monitored and reviewed during State Level Task Force (SLTF) meetings.

**Co-operative Revival and Reforms**

**Package for Short-Term Rural Co-operative Credit Structure**

In order to examine the problems faced by the Credit Co-operatives and to provide suggestions for their revival, the Government of India had appointed a Task Force in the year August 2004. Thereafter, based on the recommendation of this Task Force, the Government of India after due consideration announced a Revival Package in 2006 for the revival of STCCS. The integrated package envisages (a) provision of liberal financial assistance, (b) introduction of legal and institutional reforms essential (c) initiating measures to improve the quality of management.

**Financial Package (2004)**

Financial assistance, the onetime measure, is conditional and released only on the implementation of the recommendations for legal and institutional reforms. Participation of the State is an optional one. States which participate in this scheme has been provided with financial assistance under the package if they agree, through the mechanism of a formal MoU or Exchange of Letters with the Central Government, to implement (in a phased manner and within a period of 3 years), the legal and institutional reforms envisaged. Other states have been given two years period to take a decision on this matter. Bottom up approach is adopted and it enables PACS to clear their dues to the upper tiers and thereby reduce the accumulated losses of D.C.C.Bs. The liability for funding the financial package needs to be shared by the Central Government, State governments, and the Credit Co-operative Societies based on origin of loss and existing commitments.
Task force recommended the extension of financial assistance,

- To bring all Co-operatives, including PACS, to a minimum Capital to Risk weighted Assets Ratio (CRAR) of 7%, which will be raised within three years to 9% and further to 12% in the next two years.

- For reducing the share of the State Government in the equity of each institution in the three tiers below 25% of the total subscribed capital within a period of three years and to treat the excess of 25% as a grant by the state government.

- To cover accumulated losses as of 31st March 2004 for which special audit needs to be carried out by all the PACS, D.C.C.Bs and SCBs based on uniform accounting criteria.

- To cover the costs of training and capacity building to improve the financial management skills of staff and board members; for installation of uniform accounting and monitoring systems; as well as for computerization.

**Legal and Institutional Reforms**

Poor management and governance are the root causes for the poor financial state of Co-operative Societies. Unless these are improved, the entire capitalization amount would be wasted. This called for amendments in the relevant Acts such as Co-operative Societies Acts of the States, Banking Regulation Act, NABARD Act etc., along the lines suggested by the Task Force.

**Reforms in the Co-operative Societies Act**

The reforms in the Co-operative Societies Acts under the package includes the amendments in the Co-operative Societies Act for ensuring full voting membership rights in Co-operatives other than Co-operative Banks, Removing State intervention in all financial and internal administrative matters, Permitting Co-operatives to take loans from/to deposit with any regulated financial institution, Limiting powers of State governments to supersede the Boards, Ensuring timely elections were made.
Regulatory Reforms

Regulatory reforms under the package includes the amendments for, treating all Co-operative Banks on par with the Commercial Banks as far as regulatory norms are concerned, prohibiting Co-operatives other than Co-operative Banks to accept deposits, observing RBI regulatory prescription in all matters related to selection and appointment of Board members, CEOs, winding up of D.C.C.Bs/ SCBs etc.,

Revival Package - Status of Implementation so far

It is a matter of satisfaction that as of April 2010, 25 States covering 95 % of the S.T.C.C.S. in the country, have executed the MoU with the Government of India and NABARD, and they progressed towards implementation of reform agenda. The Government has invited the remaining states to approach it in this regard, if they so like, and complete the process.

The package was introduced in January 2006 but it has been kept in abeyance for three years. Even though the three years period already got elapsed only 14 States out of 25, which have signed MoU have been able to amend the Co-operative Societies Act. As a result of this slow implementation of these legal and institutional reforms, NABARD has disbursed so far (by the end February 2010), only Rs.7, 972.22 crore as against the estimated amount of Rs.13, 596 crore. This amount has been used for recapitalization of 49,674 PACS in fourteen States.

As per the recommendation of task force, 79530 PACS out of 95626 PACS across 25 states have carried out the special audit. Moreover, twelve states have carried out the special audit of CCB and while the remaining states have not yet completed the process.

Books of accounts, as per the Common Accounting System, have been printed and issued in 11 States. Training on Common Accounting System /Management Information System has also been given to 61,619 PACS functionaries and 3,471 bank supervisors/ departmental auditors.
The Package laid emphasis on training and capacity building of Board Members and functionaries of STCCS. Till date, training has been imparted to 226 master trainers from sixteen States, who in turn have trained 1,896 District level trainers. As on 31 March 2010, training has been imparted to 72,127 Secretaries of PACS from fourteen States, 99,219 elected Board Members of PACS from eleven States, 369 Chief Executive Officers of CCBs and 1,671 Directors of CCBs/SCBs.

As the project was intended to cover the short term Co-operative credit structure, the various committees and their recommendations on urban Co-operative banks were not reported.

Role of Co-operative Banks in Financial Inclusion:

The committee on Financial inclusion defines the Financial inclusion “as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.” 62 This agenda is being pursued vigorously by the Government of India and Reserve Bank of India which cannot be accomplished without the involvement of Rural Co-operative Institutions.

Reserve Bank of India has issued instructions, based on the recommendations of Rangarajan Committee report (2008) that, Primary Agricultural Credit Societies (PACS) can be appointed as Business Correspondents by banks for promoting financial inclusion. Besides, Co-operatives can adopt group approach for financing excluded groups in which community based organizations such as joint liability groups will provide some degree of mutual guarantee to enable its members to access credit. Further, the Government advised Co-operative Banks to make use of Financial Inclusion Fund and Financial Inclusion Technology Fund for the purpose of financial inclusion.

inclusion. In continuation of the reforms the issues and challenges faced by the Co-operative Bank is presented below:

**Issues and Challenges of Co-operative Banks**

Though India has the World’s largest and most diverse Co-operative Movement, barring some exceptions our Co-operatives in general are encumbered with a number of troubles and confronts. Apart from certain inherent weaknesses, they are also suffered by the irresistible role of the Government as well as prescriptive and restrictive legislation and have been unable to retain an autonomous and democratic character. The problems and challenges that Co-operatives face today are numerous. These include the functional aspects of Co-operatives namely Membership, Governance and Operations which could be considered as internal to the organization. These problems are further compounded by two important external factors - namely politicization of Co-operatives and the control/interference by governments.

**Membership and Governance**

It is stipulated in the Co-operative Act that the non-user members can be removed by the General Body through a special resolution which is considered to be a long drawn process and it has not been addressed with the required seriousness.

**Governance**

In Co-operatives, governance issues are primarily focused on the structure of the Board and its relationship with members, managers and the State. Sadly, the most important function of governance, which is that of aligning the tasks in tune with the basic objective with which a Co-operative is organized, has received very little attention.

**Lack of Recognition of Co-operatives as Economic Institution**

A fundamental issue of Co-operative institutions is the lack of recognition of Co-operatives as economic institutions meant to serve the needs of its members. It is generally perceived as an instrument of Government meant for public good and need to
be supported by the government. Co-operatives need to be seen as autonomous, economic institutions.

**Design Issues**

The lack of knowledge of higher tier Co-operatives about multi-faceted choices in designing/re-designing Co-operatives seriously affects governance, inhibits growth and can result in wrong choices. This is particularly so where there is no clear focal and dynamic leadership.

**Board and Management Interface and Accountability**

The effectiveness of a Co-operative depends in large part on the quality of partnership between its Board and Chief Executive. In general, Co-operative Boards suffer from lack of long-term perspective, market and business orientation. Further lack of clarity regarding the roles, responsibilities and accountability at different levels leads to conflicts.

**Professionalization and Accountability**

Lack of professionally trained and qualified manpower is one of the weakest areas of Co-operatives. It was due to lack of financial ability to hire competent professionals to provide a stimulating and conducive work culture. Hence the need for change and adoption of sound Human Resource policies assumes great importance.

**Capital**

Lack of capital, both equity and debt, are key constraints to the development and growth of Co-operatives especially in case of value-added businesses. Co-operatives are financially supported by the Government as they could not access the capital market. This has invariably impacted on the autonomy of Co-operatives. Further, the high level of under recoveries of debt affects the financial results Co-operatives.
Competitiveness

Co-operatives, constrained by restrictive laws, lack functional autonomy including the required freedom in matters such as, area of operation, appointment of staff, deciding on remuneration payable, pricing, mobilization of funds, investment of funds and flexibility in business operations and due to this they cannot cope with the emerging competition.

Accessibility to Finance

Lack of credit facilities to a large segment of rural population, particularly the poor and marginalized, is a concern that needs to be addressed. For example, the share croppers/tenant farmers/ agricultural labourers’ are unable to avail loans due to the absence of clear ownership title to land/collateral, and hence remain outside the Co-operative Credit System.

Sickness in the Co-operative Sector

Of over five lakh Co-operatives in the country at different levels, a large number today are on the verge of sickness. The government’s financial assistance for rehabilitation of many sick Co-operatives proved to be ineffective. Hence clear voluntary exit policies for Co-operatives which are not amenable to revival need to be introduced.

Politcization of Co-operatives and Control/Interference by Government

Eventually Co-operatives have been increasingly politicized. Instances of a political party in power assuming control over large sized Co-operatives and use of the Co-operative for political patronage have weakened the Co-operative sector and affected their ability to function as competitive and professionally managed business entities.

Corruption and frauds

Red tapism in business operations, vested interests of bureaucrats and increased corruption and frauds are the other challenges which affect the efficiency of
Co-operative businesses. Regular audit of accounts, sincere action against misappropriation of funds if any are mandatory to ensure their viability.

Despite of these issues and challenges, the Co-operative Credit Institutions are till now playing a key role in meeting growing agricultural & non-agricultural needs of rural India. No doubt, the quantum of credit planning from these institutions has increased, but the performance of these institutions has been deteriorating drastically. Hence, there is a need for revolutionary and practical reforms, which could restructure the entire Co-operative Banking so as to enable the sector to face challenges of globalization and privatization.

Having discussed the history and growth of Co-operative Movement, the reforms taken place in the Co-operative Banking Sector and the problem faced by the Co-operative Institutions, the researcher delved on the profile of the study unit and area where the present research is carried out in the next chapter.